

HOUSE BILL REPORT

HB 1911

As Reported by House Committee On:
Technology, Energy & Communications

Title: An act relating to modifying the business and occupation tax on wholesalers of solar energy systems and sales and use tax treatment of semiconductor materials.

Brief Description: Modifying the business and occupation tax rate on wholesalers of solar energy systems and including semiconductor materials.

Sponsors: Representatives Probst, Morris, Ericks, Jacks, Kelley, Conway and Orcutt.

Brief History:

Committee Activity:

Technology, Energy & Communications: 2/9/09, 2/11/09 [DPS].

Brief Summary of Substitute Bill

- Extends tax incentives to businesses that manufacture or sell at wholesale certain solar energy materials.

HOUSE COMMITTEE ON TECHNOLOGY, ENERGY & COMMUNICATIONS

Majority Report: The substitute bill be substituted therefor and the substitute bill do pass. Signed by 16 members: Representatives McCoy, Chair; Eddy, Vice Chair; Crouse, Ranking Minority Member; Haler, Assistant Ranking Minority Member; Carlyle, Condotta, Finn, Hasegawa, Herrera, Hinkle, Hudgins, Jacks, McCune, Morris, Takko and Van De Wege.

Staff: Kara Durbin (786-7133)

Background:

Washington's major business tax is the business and occupation (B&O) tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state without any deduction for the costs of doing business. Revenues are deposited in the State General Fund. A business may have more than one B&O tax rate, depending on the type of activities conducted. There are a number of different rates. The main rates are: 0.471 percent for

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retailing; 0.484 percent for manufacturing, wholesaling, and extracting; and 1.5 percent for professional and personal services, and activities not classified elsewhere.

Preferential manufacturing B&O tax rates have been provided by the Legislature in recent years for aerospace, semiconductor microchips and materials, biodiesel fuel, aluminum smelting, solar energy systems, and timber/wood products.

Semiconductor Cluster Incentives.

In 2003 the Legislature enacted a package of tax incentives for manufacturers of semiconductor materials, including silicon crystals, silicon ingots, raw polished wafers, compound semiconductors, integrated circuits, and microchips. These incentives were contingent upon an investment of at least \$1 billion in a semiconductor microchip fabrication facility in the state. This package included: (1) a preferential B&O tax rate of 0.275 percent; (2) an exemption for gases and chemicals used in semiconductor manufacturing from retail sales and use tax; (3) an exemption for the construction of new semiconductor manufacturing buildings from retail sales and use tax; (4) a B&O tax credit of \$3,000 for each employment position in semiconductor manufacturing production; and (5) an exemption for machinery and equipment used in manufacturing semiconductor materials from property taxation. This contingency criterion was never met.

In 2006 another package of tax incentives was provided for manufacturers of certain semiconductor materials. These incentives were contingent upon an investment of at least \$350 million in new or expanded semiconductor manufacturing facilities in the state. This package included: (1) a preferential B&O tax rate of 0.275 percent; and (2) an exemption from retail sales and use taxes on the acquisition of gases and chemicals used in the production of semiconductor materials. This contingency was met, and the reduced tax rate became effective on December 1, 2006.

Solar Energy Systems.

In 2005 B&O tax rate reductions were provided for certain types of solar energy manufacturing. The B&O tax rate was lowered to 0.2904 percent for businesses that: (1) manufacture or sell at wholesale solar energy systems using photovoltaic modules; or (2) manufacture or sell at wholesale solar grade silicon to be used in the components of a solar energy system. Taxes paid in manufacturing these systems are granted as a B&O tax credit. These solar energy manufacturing tax provisions expire on June 30, 2014.

Summary of Substitute Bill:

Beginning October 1, 2009, the B&O tax for businesses that manufacture or sell at wholesale either: (1) solar energy systems using photovoltaic modules; or (2) solar grade silicon, silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers to be used exclusively in the components of such systems, is set at a rate equal to the value of the product multiplied by 0.275 percent. This lower B&O tax rate expires on June 30, 2014.

An exemption from sales and use tax for gases and chemicals used in semiconductor manufacturing is extended to silicon solar wafers, silicon solar cells, thin film solar devices, or compound semiconductor solar wafers. This exemption expires on December 1, 2018.

Substitute Bill Compared to Original Bill:

The substitute bill removes sales and use tax exemptions for construction activities related to solar energy manufacturing. It also makes technical corrections.

Appropriation: None.

Fiscal Note: Requested on February 6, 2009.

Effective Date of Substitute Bill: The bill takes effect 90 days after adjournment of the session in which the bill is passed.

Staff Summary of Public Testimony:

(In support) Thin film technology is now included in the definition of semiconductor materials for solar manufacturing. This process didn't exist when the original incentives were passed. This bill harmonizes the B&O tax rate for all three solar technologies. The existing incentives for this industry have worked. Semiconductor incentives have helped our state recruit these types of facilities – around \$500 million in investments to date.

Solar energy manufacturing is an industry where demand is increasing. We are encouraging people to buy solar that is manufactured in Washington rather than Germany, Oregon, or elsewhere. Solar energy as a renewable resource holds enormous potential for green jobs and for meeting our state's climate goals.

The Columbia River Economic Development Council has worked diligently to recruit solar manufacturing facilities to our state. Washington doesn't necessarily have the incentive structure to encourage them. Nineteen companies have explored locating in Washington, but none have located here. Many of these prospective companies are locating in Oregon instead.

(Opposed) None.

Persons Testifying: Representative Probst, prime sponsor; and Bart Phillips, Columbia River Economic Development Council.

Persons Signed In To Testify But Not Testifying: None.